St Louis Rotary Club - Sept 19, 1968

I. Inflation - We have it

Trace its development

II. Why Inflation?

Trace G.N.P. growth

Current dollar

Real

Excessive nature of expansion.

III. Why has expansion been excessive?

Two schools of analysis

Fiscal stimulus

New Economics

Fine tuning

'60 - '64 it worked (apparently)

'64 on it didn't - why?

Delay in Congressional action
and
The influence of Monetary policy

Trace rates of expansion

Tight Money - Tight money policy

IV. The July 1 fiscal package

Prior to June heralded as a must

Immediately following enactment

Overkill

Rapid reduction in growth

Predictions of recession

Must keep interest rates down
Housing, etc.

G.N.P. to 10 billion advance -
third quarter

Some of us were skeptical

Belief

While excessive Federal spending coupled with massive budget deficits generates intense pressure toward monetary expansion,

Fiscal policy effective as an economic stabilization influence only in so far as monetary management makes it effective.

Commerce estimates raised for 3rd quarter - 10 to 15 - likely higher

How about 4th quarter? 1st quarter of 1969?

Money rate of growth may be slowing

Too short a period to tell.

If it is - 1st quarter of '69 might ease off

If not - strength through 1st quarter.

Finally - What do we want?

Accept 5 - 6 - 7% inflation to

Hold interest rates low for a time

Hold unemployment at 3 1/2%

Hold business profits high

Or are we willing to accept

Temporary reductions in profits

Increase in unemployment

Higher interest rates for a time.

To my view

We must take the relatively minor pains of correction if we want long-run stability, optimum economic growth, and further expansion of living standards.